

—Money Matters— Up in smoke!

Holy smoke! The Canadian government sure is putting the boots to smokers... eh?

When the news came of the new tax being added to cigarettes, the thought came to have a look at some of the implications that smoking can have, especially on younger people.

First, there are the life insurance mortality tables. In general, young people, both men and women, between the ages of 20 to 35 can expect to live 4 to 8 years less than non-smokers. Forget about the cigarette price increase, that's enough to encourage some people to quit.

Next, thoughts about the amount of money that would be spent in a lifetime, if the price of cigarettes stayed at this new price. An informal survey indicates the new price with 8% sales tax and 7% GST is \$5.12 per package of 25, or \$40.96 per carton of 200.

If a person starts smoking at age 20 (and how many do you know who start at the age of 12 or younger?) and keeps it up for 50 years (assuming they don't die from it first) at the rate of 1 carton per week... that amounts to a total of 2,600 cartons or 20,800 packages of cigarettes.

If the price stays at \$5.12 per package that would add up to \$106,496. That's quite a tidy sum of money.

Now, let's suppose that this person decided to do something radical with this money... like quitting smoking and saving for the future. And let's suppose that he or she took this money and started a monthly savings plan. The oft heard excuse, "I can't afford it" doesn't wash, because the money is being spent now on cigarettes. It simply becomes a question of changing the direction of the expenditure.

Well, a carton per week for 52 weeks works out to \$2,129.92 at current prices or \$177.49 per month. Let's add a cent to the monthly figure to round it out to \$177.50.

Forgetting about taxes, and inflation for a minute, if a 20 year old non-smoker started a savings plan that yielded a 10% return compounded annually and saved that \$177.50 per month till the age of 60, a total of 40 years, it would yield the sum of \$942,722.14.

But suppose he or she had heard that long term investing in mutual funds have proven to yield a return that was better than 10%. Some of the well managed funds have returned 15% or more per year in the long term. But, let's use a return of 13% to be a little more conservative. The same amount of money saved per month in the mutual fund would now yield the sum of \$2,591,190.04.

The same calculation for a mutual fund averaging a 15% annual return (and some international funds have done that or better long term) would yield the sum of \$3,789,462.86 over the same 40 years. All this from quitting smoking and investing the cigarette money.

To stop smoking is not easy, it is a personal decision, and a question of concentrating will power to break the habit. The saving part should not be nearly as hard to accomplish. If this same person has a bank account, starting



IT'S YOUR MONEY
Paul J. Rockel

a monthly investment program with a mutual fund company can be done with a simple pre-authorized cheque, which is deducted from the bank account each month. Once started it's really quite painless.

If a 40-year-old quits, and does the same thing, the values at age 65 would be \$209,479.24 at 10% return... \$331,469.65 at 13% return... and \$453,249.13 at 15% return.

If the money was invested inside of an RRSP this growth in value would compound tax-free until the time of retirement. Then it would probably be withdrawn to provide a monthly income and taxed at the ex-smokers' marginal tax rate.

If the investment was not inside the tax shelter, and using current tax rates, the interest in the case of the 10% investment would be taxed the same as income. In the case of the mutual funds returning 13% and/or 15%, the income would come in the form of capital gains and dividends. Most Canadians still have their lifetime \$100,000 exemption and the income in the form of capital gains would not be taxed until that \$100,000 was used up. After that it would be taxed at about 75% of tax on interest income. Dividends would be taxed, but at a much lesser rate than interest. In the lowest income class dividends are taxed at slightly more than 1/4 the rate of tax on interest, and at a taxable income of \$50,000, the tax would be about 60% of the tax on interest. The bottom line is that the average Canadian would be far better off receiving income from a mutual fund than from fixed term investments.

Assuming inflation averages 5% in the future, the 20-year-old who invested in the 15% mutual fund would, at age 60, have a potential income of approximately \$50,000 per year inflation adjusted to today's dollars.

Now, who wants to quit smoking? For free information on saving by installments and a chart comparing the results of monthly savings in an investment yielding 10% with an actual mutual fund, contact Peter C. Masson M.B.A., Regal Capital Planners Ltd., 10 Fagan Drive, Georgetown, Ontario or phone 877-7216.

Paul J. Rockel is the author of the best seller "Why I Invest in Mutual Funds" and President of Regal Capital Planners Ltd.

Bad news about diabetes

Diabetes kills more than 150,000 Americans each year and causes blindness in many thousands more. Nearly half of all nontraumatic leg and foot amputations in the U.S. are caused by diabetes. People with diabetes are at least twice as likely as non-diabetics to have heart disease or stroke. From Drug Topics, Oct. 22, 1990.

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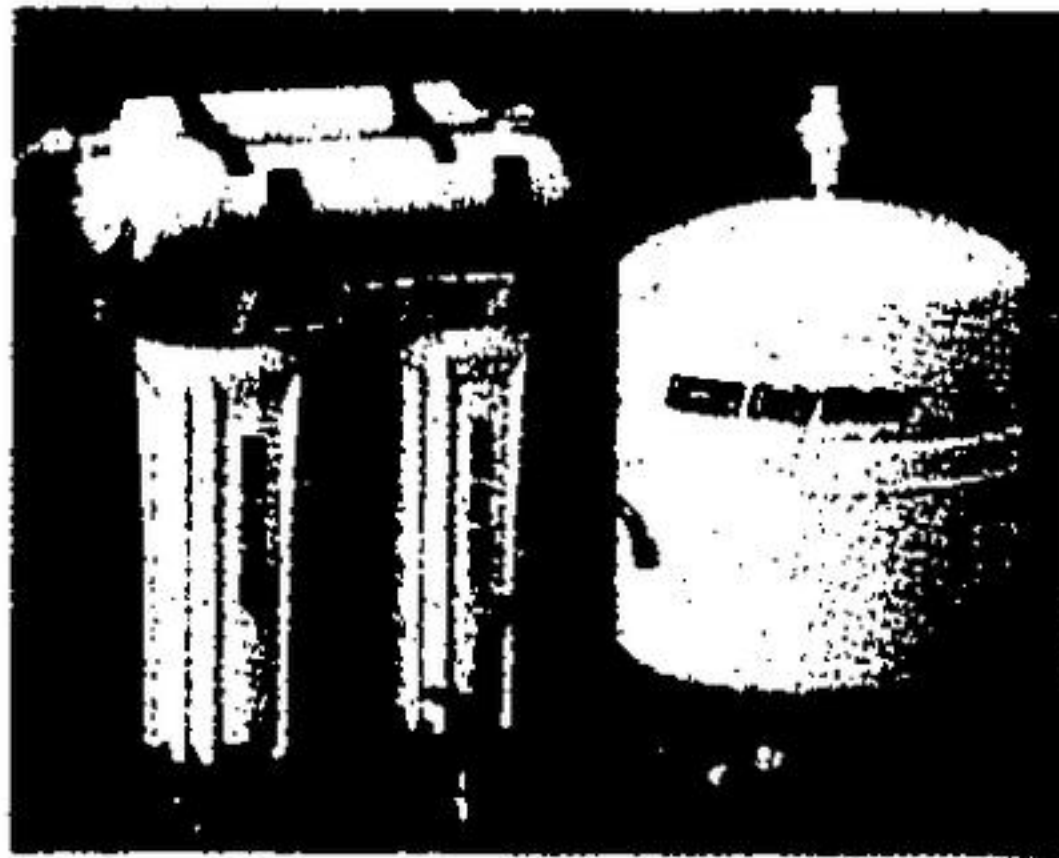
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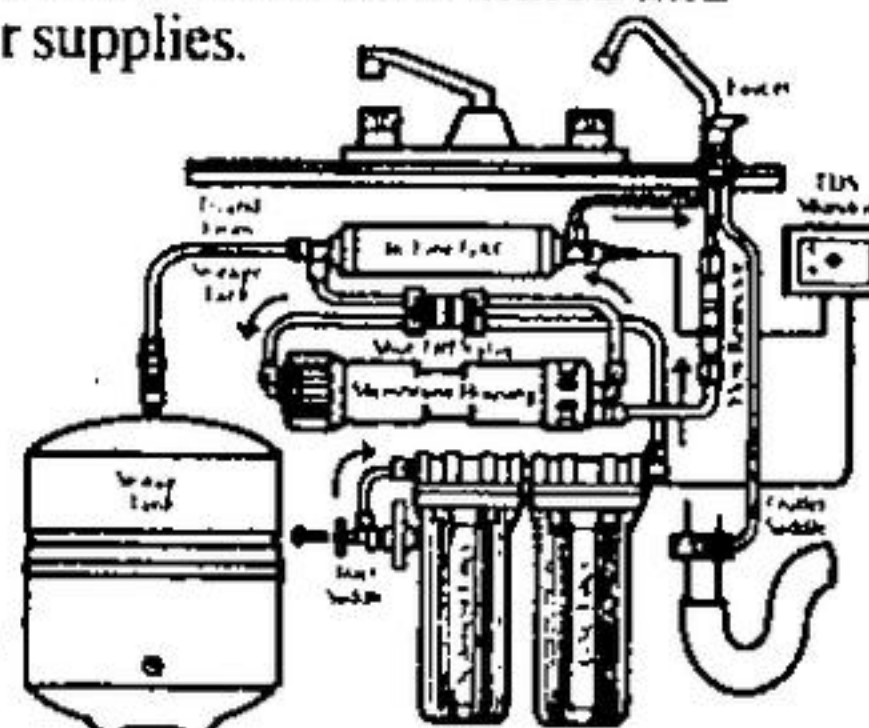
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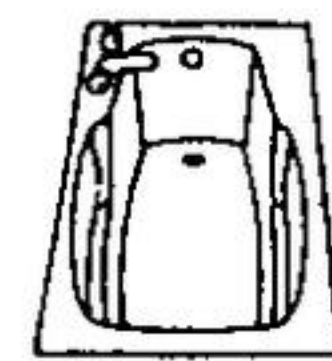
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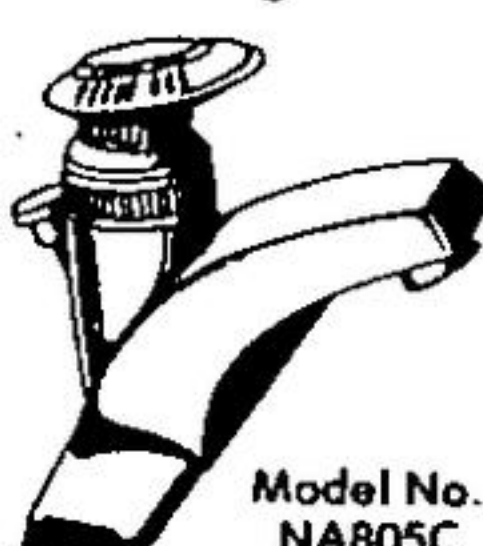
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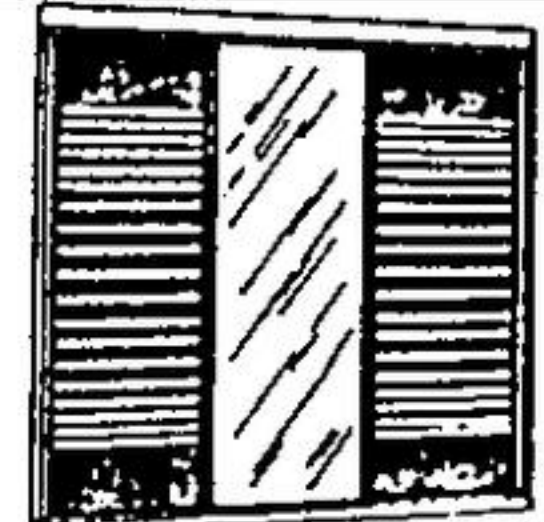
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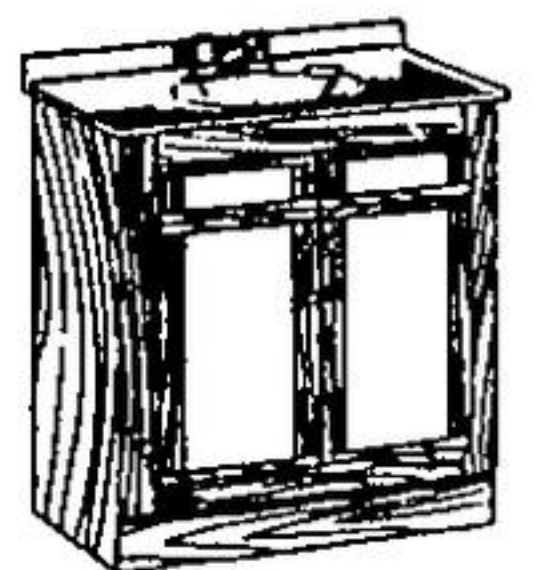
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